Interim Report
July - September
2002

Telelogic July - September 2002:

- Positive operating income in third quarter
  MSEK 1.1 in earnings, and substantially improved operating margin
- Positive development of gross margin, 72.7% for the quarter
  License share of total revenues increases to 75%
- Continued decline in the telecom segment
  The aerospace/defense industry has grown to become Telelogic's largest segment
- Tau Generation2 launched
  One of Telelogic's biggest product launches ever opens up new possibilities
- 45% growth of revenues for Telelogic DOORS
  Sales of DOORS increases in all segments
- Positive cash flow over the first nine months
  SEK 28.8 M in positive cash flow. Liquid assets totaled SEK 150.3 M

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Strengthened position in unchanged market climate
Telelogic's sales for the third quarter totaled SEK 264 M (USD 28.3 M), as compared to SEK 290 M (USD 29.9 M) in the second quarter. Sales in Swedish kronor fell SEK 76 M compared to the third quarter of 2001.

Sales of licenses and maintenance totaled SEK 201.6 M, accounting for 76% of total sales. Adjusted for currency exchange effects, the license and maintenance revenues are on a par with the third quarter of 2001. Sales of licenses and maintenance in Swedish kronor decreased 7% compared to the same quarter the previous year.

Consulting sales totaled SEK 62.4 M for the third quarter, 49% lower than in the third quarter of 2001. Over the last year, Telelogic has cut its consulting staff in half and steered its operations away from telecom, where demand is very, towards the other focused segments. In countries with large consulting organizations, the number of consultants will continue to be tailored to the weak demand that Telelogic believes will continue over the next few quarters.

The American market has developed in a stable manner, with revenues and margins on a par with the second quarter. Telelogic's American operations have a lower proportion of sales to telecom, and have not been affected as severely by the decline in this segment. Aerospace/defense and the automotive industry are two segments that have shown positive growth. Telelogic's American operations showed good profitability for the fourth consecutive quarter.

Telelogic's market companies in Europe achieved gradual improvement in their margins over the period. The exception is the Nordic region where the negative trend has continued with lower sales in the third quarter compared to the second quarter of 2002. The decline is attributable mainly to the region's strong ties to telecom, and to extremely weak demand for consulting services. As of the end of the third quarter, Scandinavia accounted for one-third of Telelogic's total consulting resources. These have gradually decreased over the year, and it is estimated that, as a share of the total resources, this will continue.

In Asia, Telelogic's Japanese subsidiary continues to develop well, with stable sales and favorable margins. In other parts of Asia the third quarter was weak in terms of sales, though still another quarter of good profitability.

Earnings
For the third consecutive quarter, earnings continued to show strong improvement compared to the corresponding period of the previous year. Operating income before goodwill amortization and restructuring costs totaled SEK 1.1 M, as compared to SEK –49.5 M for the same period of the previous year.

Costs have been cut further during the third quarter, as the bulk of the cost-cutting measures initiated in 2001 and the first half of 2002 have taken effect. Total costs, including restructuring costs, fell 39% compared to the third quarter of 2001, and by 10% compared with the first quarter of 2002.

Restructuring costs during the quarter totaled SEK 19.8 M. Income after net financial items totaled SEK –23.3 M. Telelogic will continue to streamline its operations during the fourth quarter. Total costs, including restructuring costs, will thus continue to decrease.

Improved gross margin
Telelogic has successively improved its gross margin, which was 72.7% for the third quarter, as compared to 67% for the same period of the previous year. The gross margin for license sales also increased somewhat, although the improvement in the total gross margin is attributable mainly to the fact that sales of licenses and maintenance are accounting for an increasingly greater share of total sales.

The margin for consulting operations during the period was 17.9%, which is 12.8 percentage points better than in the second quarter of 2002. Telelogic is gradually adjusting the number of consultants to meet the lower demand. Telelogic's long-term goal is a consulting margin above 30%. This goal is expected to be reached in 2003.

The operation involved in developing a UMTS protocol stack was sold off to an English partner during the period. This operation employed some 30 consultants over the last year. Of these, 10 employees in England transferred to the English partner, while the others were given notice.

Successful repositioning towards new segments
There are still no signs of recovery in telecom. The telecom segment's share of Telelogic's total sales continued to fall from 32% in the second quarter to 25% in the third. Some of the major customers in this segment have participated in the evaluation program for the new generation development tool, Tau Generation2, with positive results. The Tau product family continues to be the dominant product in this segment.

Aerospace/Defense now the largest segment
The company's sales to the aerospace and defense industry increased 16% during the period as compared to the same period of the previous year. This segment accounted for 26% of total sales during the third quarter, making aerospace/defense Telelogic's single largest segment. Sales of Telelogic Tau products rose 28%. However, Telelogic DOORS remains the dominant product in this segment, accounting for 74% of the total sales.

The advantages that can be gained in terms of improvements in both productivity and quality by using efficient development tools are clearly demonstrated by the fact that one of the world's leading aerospace and defense firms, American Raytheon, has achieved the highest level of the international quality assurance standard for software, CMM, primarily through their use of the requirement management tool, Telelogic DOORS, and the configuration management tool, Telelogic Synergy. A substantial contract was signed during the quarter with the world largest helicopter manufacturer, Westland, which standardized on DOORS and signed a six-year license and maintenance agreement worth MSEK 5.5. During the quarter, a government customer signed an agreement worth a total of MSEK 12.4 for all of Telelogic's product families to be used in developing and maintaining advanced control and logistics systems for air surveillance.

Cross sales increasing in the automotive industry
Sales to the automotive industry are again in line with the levels achieved in the first quarter. This segment accounted for 9% of Telelogic's third quarter sales, as compared to 6% in the second quarter. Sales remain concentrated in Germany. In the USA, sales still are somewhat lower, but have tripled during the period compared with the first quarter. The operation in Japan has so far resulted in a number of important pilot projects, but no major contracts as yet.

The automotive industry is the segment in which cross sales have achieved the greatest success. During the quarter both Telelogic DOORS and Telelogic Synergy grew substantially, resulting in a balanced product mix consisting of 35% for DOORS, 27% for Tau and 30% for Synergy. The biggest contract in this segment was signed with a German carmaker, with Telelogic set to provide consulting services over a four-month period in a project in which Telelogic and the customer will jointly develop an advanced information and entertainment system for the driver and passengers in the car.

Strong growth of Telelogic DOORS
Telelogic DOORS continues to be the product family showing the strongest growth, 45% compared with the third quarter last year. Its share of sales for the third quarter increased to 45%, as compared to 38% for the second quarter. Telelogic Tau declined to account for 25% of total sales during the third quarter, but increased in all focused segments except telecom compared with the second quarter this year. Synergy exhibited a similar pattern. This product family increased in the automotive and aerospace/defense industries compared with the second quarter, but declined to account for 24% of total sales during the period.

Launch of new product generation
Telelogic launched a number of new products earlier in the year, a trend that has continued during the second half of the year. A DOORS upgrade that includes support for electronic signatures was launched in September. This functionality has long been highly sought after in the medical technology and pharmaceuticals industries, among others.

Just after the end of the quarter, on October 7, Telelogic launched an entirely new generation of Telelogic Tau. Tau Generation2 comprises one of the biggest product launches in the company's history, and represents the results of Telelogic's multiyear effort to merge the SDL and UML development languages. The new standard, UML2, which is being standardized by the international organization OMG, is still in development. Tau Generation2 is the first tool from any of the leading actors on the world market to support UML2.

The new tools have already generated keen interest among the customers that were involved in the evaluation program completed prior to the launch, and which resulted in two customers, American Hughes Network Systems and French Cellon, signing contracts for Tau Generation2 in advance of its launch.

Personnel
The number of employees totaled 850 at the end of the quarter, a decrease from 916 at the end of the previous quarter. This is a result of previously initiated programs designed to cut costs and focus on core activities.

A salary reduction program that temporarily cut salaries by 10% was introduced as part of the cost-cutting measures implemented in the fourth quarter of 2001. The end date for this program was September 30, 2002, which entails a cost increase of SEK 6 M per quarter beginning as of the fourth quarter. However, total costs will continue to decrease during the fourth quarter.

Financial position
Cash flow from current operations totaled SEK 85 M for the first nine months. SEK 57 M of the SEK 61.9 M in investments represents capitalized product development, mainly in connection with Tau Generation2, which will start being sold next quarter. The employee stock options program generated SEK 13 M, while all loans excluding the convertible loan have been repaid, totaling payments of SEK 7.8 M.

This yielded a positive cash flow of SEK 28.8 M for the first nine months of the year. Liquid assets totaled SEK 150.3 M as of September 30, 2002.

Annual General Meeting and nominating committee
The regular Annual General Meeting will be held at Börshuset in Malmö on April 2, 2003. The proposals of the Board of Directors will be announced in their entirety in the customary manner, well in advance of the meeting. Proposals from the shareholders concerning board member nominations may be submitted to the chairman of the nominating committee, Bo Dimert, or to the CEO, Anders Lidbeck.

Outlook for 2002
Because there are no signs of a rapid recovery in the telecom industry this year, and because the expectations of generally increased willingness to invest are conservative, Telelogic anticipates that it will be difficult to achieve growth during the second half of 2002 as compared to the same period in 2001. Telelogic will instead continue to focus on improving operating income and cash flow.

Despite an anticipated weak market, we believe that the operating income for 2002 will show strong improvement compared with 2001, and that it will be positive, excluding goodwill amortization and restructuring costs. The goal of achieving positive cash flow for the year 2002 as a whole is still in place.

We are holding firm to our goal of achieving a 20% operating margin before goodwill amortization for the year 2004. The goal is also to return to growth in 2003 and 2004.

Malmö, Sweden
October 17, 2002

The Board of Directors

This report has not been subject to special review by Telelogic's auditors.

During the period, there has been no modification of the accounting principles.

Systems & Software Development

The barriers between the systems engineers who are responsible for overall system design to the software engineers who develop the software involved in the system has long imposed restrictions on productivity. The problem has been that the two groups have been unable to work in the same tool environment and with the same models and methods.

Tau Generation2 makes it possible for the first time for both systems and software engineers to work in the same tool throughout the entire development process. Using Tau/Architect, systems engineers can analyze and model large complex systems early in the process, using a standardized visual language. They can also simulate the system at an early stage to ensure that functionality and quality requirements are met.

The software engineers can then continue to work in the same language and environment using Tau/Developer, which can ultimately generate finished code from the model. Both products are based on the same development language, which means that systems and software engineers work with the same model and have access to the same language, thereby facilitating communication and improving the workflow.

Financial Information

Dates for financial information:

- Annual Statement, 2002: January 22, 2003
- Annual Shareholders Meeting: 2 April, 2003

All amounts shown are in millions of Swedish kronor (SEK million) unless otherwise stated.

Income Statement in Summary

	Jul-Sep 2002	Jul-Sep 2001	Jan-Sep 2002	Jan-Sep 2001	2001	2000
Licensing and maintenance revenues	201.6	217.7	635.2	710.2	970.5	569.6
Consulting and other revenues	62.4	122.3	210.8	404.8	524.5	311.6
Net sales	**264.0**	**340.0**	**846.0**	**1,115.0**	**1,495.0**	**881.2**
Licensing and maintenance expenses	-21.0	-27.2	-65.2	-86.3	-113.0	-57.5
Consulting and other expenses	-51.2	-84.9	-184.6	-271.2	-351.0	-196.5
Gross income	**191.8**	**227.9**	**596.2**	**757.5**	**1,031.0**	**627.2**
Sales expenses	-119.9	-174.9	-365.4	-603.8	-739.7	-362.8
Administrative expenses	-26.6	-39.6	-86.4	-135.6	-168.0	-92.2
Product development expenses	-44.2	-62.9	-133.1	-206.1	-260.9	-171.5
Operating income excl. restructuring costs and goodwill amortization	**1.1**	**-49.5**	**11.3**	**-188.0**	**-137.6**	**0.7**
Restructuring costs	-19.8	-75.0	-49.8	-75.0	-120.0	0.0
Goodwill amortizations during the year	-4.7	-29.4	-15.1	-90.5	-126.3	-50.4
Goodwill write-down	0.0	0.0	0.0	0.0	-1,737.6	0.0
Operating income incl. goodwill amortization	**-23.4**	**-153.9**	**-53.6**	**-353.5**	**-2,121.6**	**-49.7**
Net financial income/expense	0.1	-1,4	-1.0	-0.1	-2.0	8.1
Net income after financial items	**-23.3**	**-155,3**	**-54.6**	**-353.6**	**-2,123.6**	**-41.6**
Tax	0.0	34,2	0.0	72.2	72.4	-7.1
Income after tax	**-23.3**	**-121,2**	**-54.6**	**-281.4**	**-2,051.2**	**-48.7**

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Operating Key Ratios

	Jul-Sep 2002	Jul-Sep 2001	Jan-Sep 2002	Jan-Sep 2001	2001	2000
Revenue change (%)	**-22**	**70**	**-24**	**151**	**70**	**177**
Licensing and maintenance revenues	-7	73	-11	164	70	171
Consulting and other revenues	-49	64	-48	132	68	189
Gross margin (%)	**72.7**	**67.0**	**70.5**	**67.9**	**69.0**	**71.2**
Gross margin licensing and maintenance revenues	89.6	87.5	89.7	87.8	88.4	89.9
Gross margin consulting and other revenues	17.9	30.6	12.4	33.0	33.1	36.9
Indirect expenses in % of revenue	**72.2**	**81.6**	**69.1**	**84.8**	**78.2**	**71.1**
Sales expenses in % of revenue	45.4	51.4	43.2	54.2	49.5	41.2
Administrative expenses in % of revenue	10.1	11.6	10.2	12.2	11.2	10.5
Product devel. expenses in % of revenue	16.7	18.5	15.7	18.5	17.5	19.5
Operating margin excl. restructuring costs and goodwill (%)	**0.4**	**-14.6**	**1.3**	**-16.9**	**-9.2**	**0.1**
No. of employees at end of period	850	1,160	850	1,160	1,010	1,260

Financial Key Ratios

	Jul-Sep 2002	Jul-Sep 2001	Jan-Sep 2002	Jan-Sep 2001	2001	2000
Income after tax per share before dilution (SEK)	**-0.12**	**-0.89**	**-0.28**	**-2.08**	**-13.81**	**-0.45**
Income after tax per share after dilution (SEK)	**-0.11**	**-0.82**	**-0.26**	**-1.91**	**-12.39**	**-0.43**
Average number of shares during the period, before dilution (million)	199.0	135.4	196.0	135.2	148.5	107.3
Average number of shares during the period, after dilution (million)	213.7	147.4	210.5	147.1	165.5	113.0
Cash & Bank (SEK million)	**150.3**	**178.8**	**150.3**	**178.8**	**128.4**	**240.8**
Equity/assets ratio (%)	**59.0**	**77.1**	**59.0**	**77.1**	**49.5**	**76.0**
Equity per share (SEK)	3.4	13.1	3.4	13.1	3.8	18.6
Market price at end of period (SEK)	3.7	4.9	3.7	4.9	8.3	52.5
Market value at end of period (SEK million)	734	920	734	920	1,572	6,582

Balance Sheet in Summary

	30 Sep, 2002	30 Sep, 2001	31 Dec, 2001	31 Dec, 2000
Goodwill	254.4	2049.1	301.3	1,951.1
Source code rights	5.0	7.8	7.1	8.8
Capitalized development expenditure	132	53.8	75.0	0.0
Tangible fixed assets	74.4	139.4	124.9	133.8
Financial fixed assets	181.9	178.2	183.5	102.0
Accounts receivable	272.8	446.5	486.3	537.6
Other current receivables	90.5	129.6	139.3	101.0
Cash & bank	150.3	178.8	128.4	240.8
Total assets	**1,161.3**	**3,183.2**	**1,445.8**	**3,075.1**
Equity, Note 1	685.2	2,454.0	716.2	2,337.2
Provisions	13.0	0.0	18.3	34.3
Interest-bearing long-term liabilities	45.9	59.2	58.0	4.4
Non-interest-bearing long-term liabilities	8.5	64.6	78.7	67.1
Interest-bearing current liabilities	0.0	0.0	2.1	0.0
Accounts payable	27.3	63.7	46.8	79.7
Accrued expenses and prepaid income	336.2	442.1	411.6	448.7
Other non-interest-bearing current liabilities	45.2	99.6	114.1	103.7
Total liabilities and equity	**1,161.3**	**3,183.2**	**1,445.8**	**3,075.1**

Cash Flow Analysis in Summary

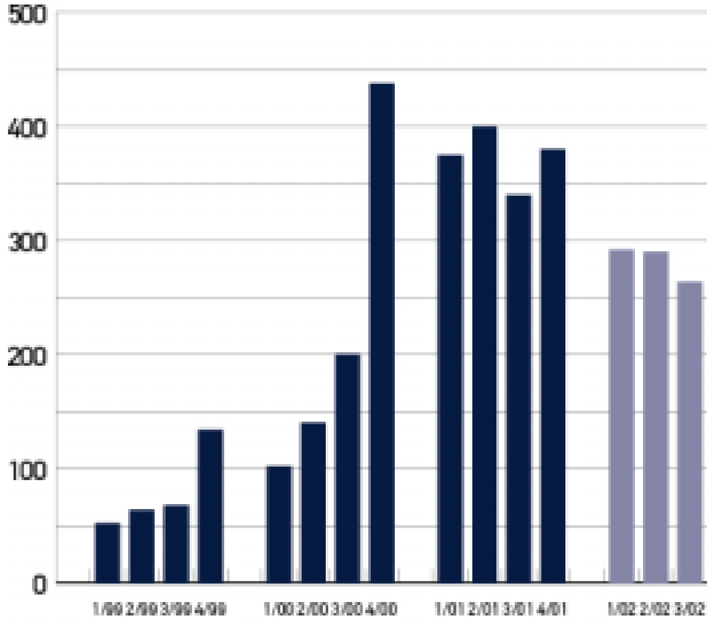
	Jan-Sep 2002	Jan-Sep 2001	Jan-Dec 2001	Jan-Dec 2000
Cash flow from current operations	85.0	-170.5	-219.4	-146.8
Investment activities	-61.9	-148.7	-160.7	-648.6
Financing activities	5.7	245.5	257.2	1,004.2
Cash flow during the period	**28.8**	**-73.7**	**-122.9**	**208.8**
Liquid funds at beginning of period	128.4	240.8	240.8	30.9
Exchange rate difference in liquid funds	-6.9	11.7	10.5	1.1
Liquid funds at end of period	150.3	178.8	128.4	240.8

NOTE 1 Equity, The Group

	No of shares Jan-Sep, 2002	MSEK Jan-Sep, 2002	MSEK Jan-Sep, 2001	MSEK 2001
Opening balance	**189,406,634**	**716.1**	**2 ,337.2**	**2,337.2**
New equity issues	11,161,620	67.8	188.2	195.1
New equity issues in progress				24.1
Exchange rate difference		-44.1	210.0	210.9
Income for the year		-54.6	-281.4	-2,051.2
Closing balance	**200,568,254**	**685.2**	**2,454.0**	**716.1**

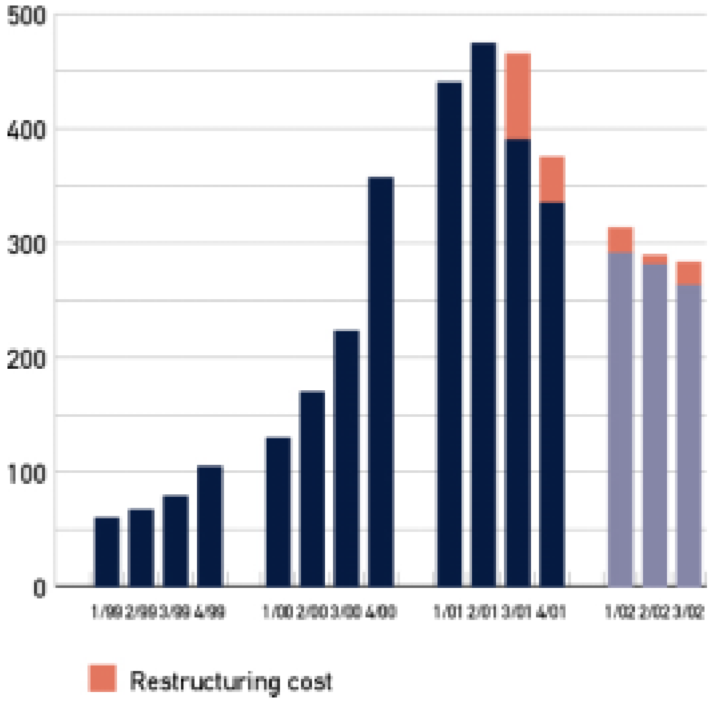
REVENUE/QUARTER

MSEK



COSTS/QUARTER

MSEK



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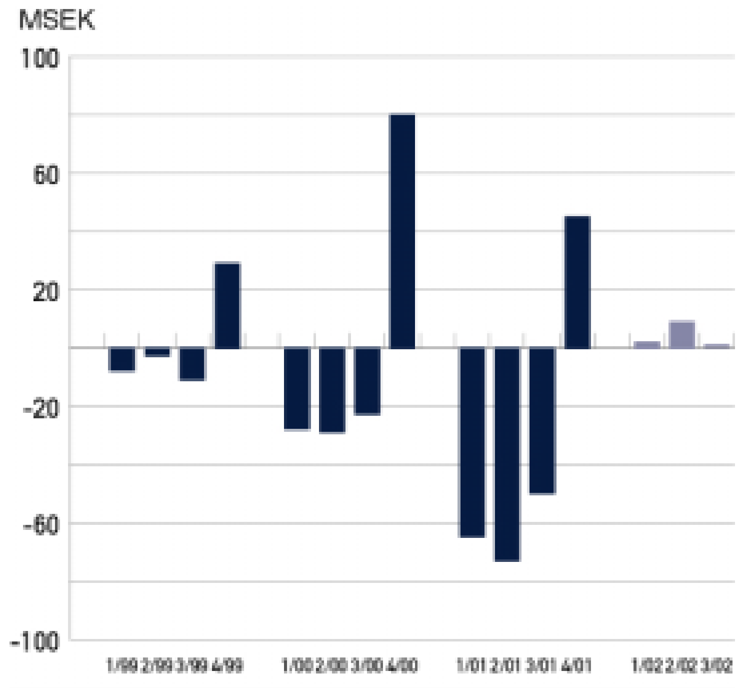
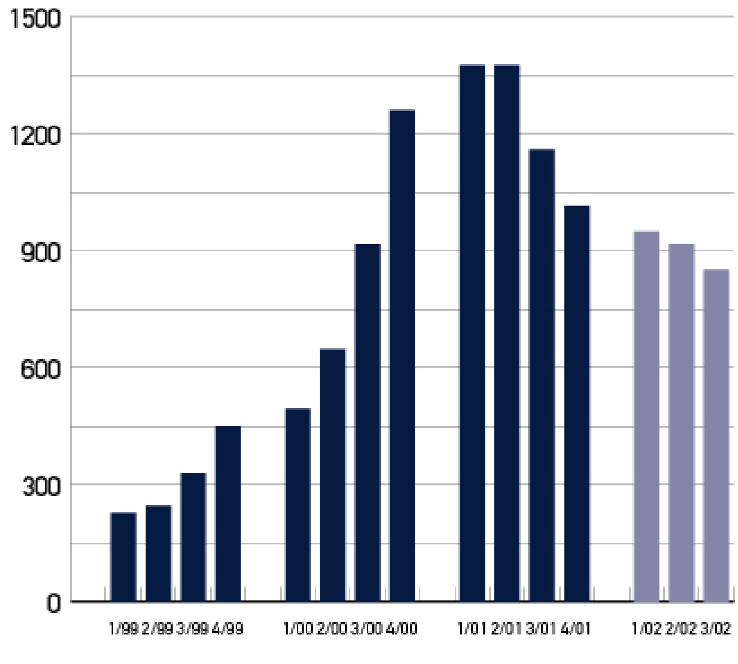
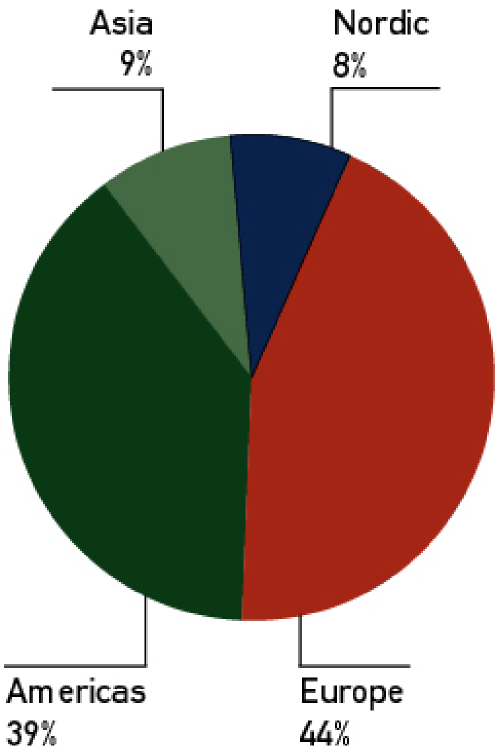
OPERATING INCOME EXCLUDING RESTRUCTURING COSTS AND GOODWILL



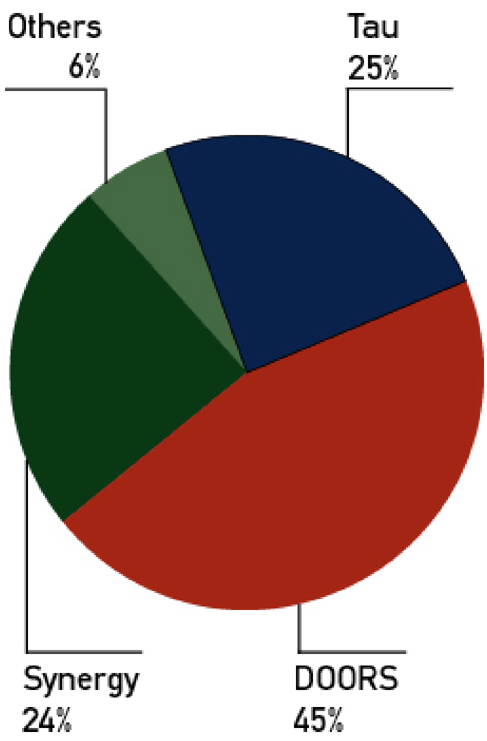
NUMBER OF EMPLOYEES



REVENUE/REGION (Jul-Sep)



REVENUE/PRODUCT (Jul-Sep)



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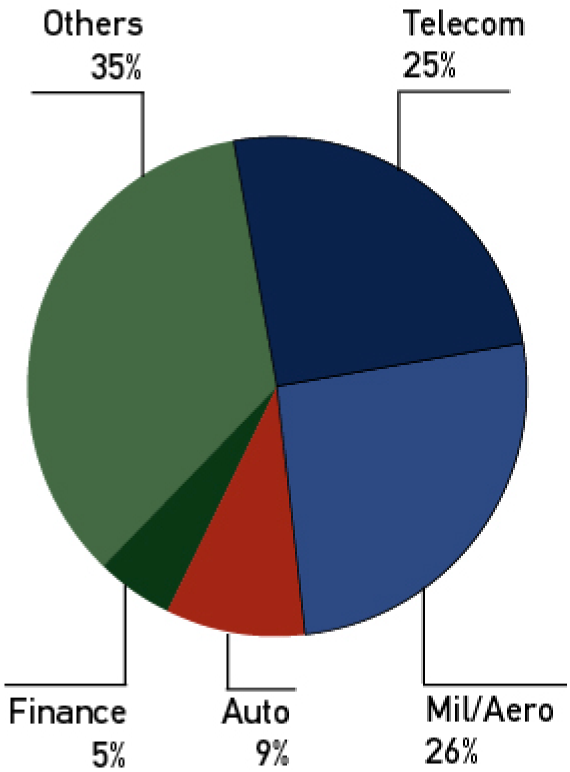
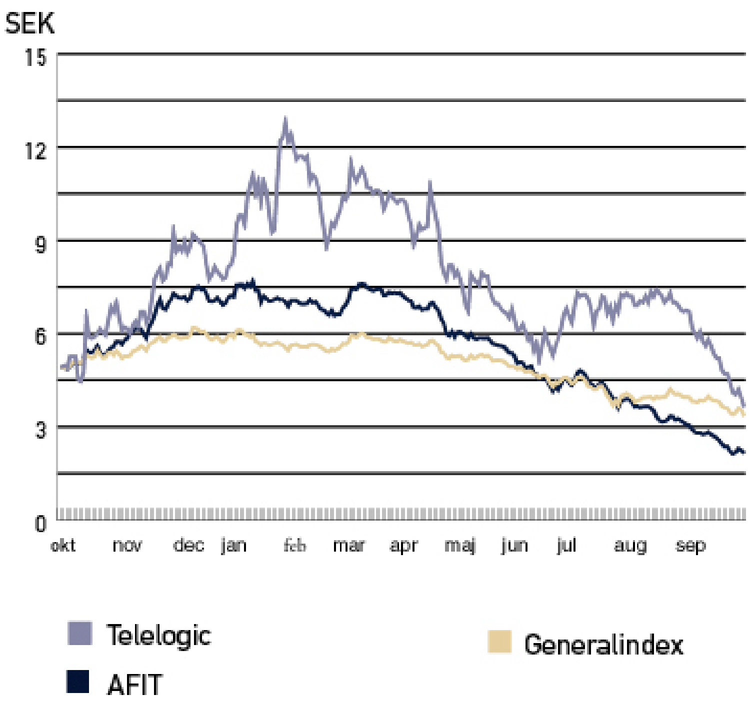
REVENUE/SEGMENT (Jul-Sep)



SHARE PRICE DEVELOPMENT



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